

# Vectren Energy Delivery

## Presentation to Indiana Utility Regulatory Commission

Natural Gas Forum  
July 27, 2001

# Presentation Outline

1. Introduction
2. Review 2000-2001
3. Price Outlook for 2001-2002
4. Vectren's 2001-2002 Procurement Strategy
5. Opportunities for Improvement

# Gas Operations Overview in Indiana

## Vectren Energy Delivery

(in millions except customers)

	<u>North</u>	<u>South</u>	<u>Total</u>
Customers	524,737	109,577	634,314
Annual Available Fixed Volume	16,669 Dth	14,934 Dth	31,602 Dth
Storage Withdrawal	18,482	4,340	22,822
<b><i>Total “Fixable” Gas Demand</i></b>	<b><i>35,150</i></b>	<b><i>19,274</i></b>	<b><i>54,425</i></b>
Annual Swing Volume	43,309	2,064	45,373
<b><i>TOTAL Gas Demand</i></b>	<b><i>78,459</i></b>	<b><i>21,339</i></b>	<b><i>99,798</i></b>
Firm Peak Day Demand	953 Dth	225 Dth	1,178 Dth
Purchases	652	85	736
Storage Withdrawal	301	140	442

## Avg. Monthly Residential Winter Gas Bill Comparison (November - March)

	<u>North</u>	<u>South</u>
	<u>Amount</u>	<u>Amount</u>
1999-2000	\$81.32	\$59.86
2000-2001	\$132.42	\$106.50
Total Incremental Cost Increase (5 month period)	\$254.50	\$233.20

# Recap of Customer Assistance Programs

	<u>1999-2000</u>	<u>2000-2001</u>
<u>LIHEAP Assistance</u>		
Customers	21,104	31,088
Dollars	\$ 3,754,207	\$ 5,538,241
<u>Co. Sponsored Assistance</u>		
Customers	2,457	3,771
Dollars	\$ 339,239	\$ 1,009,541
<u>Lilly Grant</u>		
Customers	N/A	1,108
Dollars	N/A	\$ 285,949
Budget Bill Customers	99,048	133,537

## Unrecovered Gas Cost Cumulative Balances (in Millions)

	<u>North</u>	<u>South</u>	<u>Total</u>
Oct. 31, 2000	\$20,039	\$ 9,559	\$29,598
Nov. 30, 2000	\$27,259	\$15,236	\$42,495
Dec. 31, 2000	\$38,096	\$21,568	\$59,664
Jan. 31, 2001	\$61,850	\$40,845	\$102,695
Feb. 28, 2001	\$62,436	\$40,234	\$102,670
March 31, 2001	\$55,479	\$29,828	\$ 85,307

# Financial Impacts to Vectren Corporation Due to High Gas Costs

- Interest expense on bank loans to finance higher accounts receivables, unrecovered gas costs, advances through budget billing, gas inventory, etc
- Uncollectable accounts expense increase
- Cost of unaccounted for gas significantly above amount recovered in base rates
- Funding of low income assistance programs
- Customer education, legal and regulatory costs

**Total = \$25 - \$30 million**

## Factors Impacting 2001-2002 Outlook

- Record rig count - response to higher prices
- Gas storage levels ahead of last year - record injections
- Demand slowed by higher prices and weaker economy
- Relatively mild summer reducing gas demand for electric generation

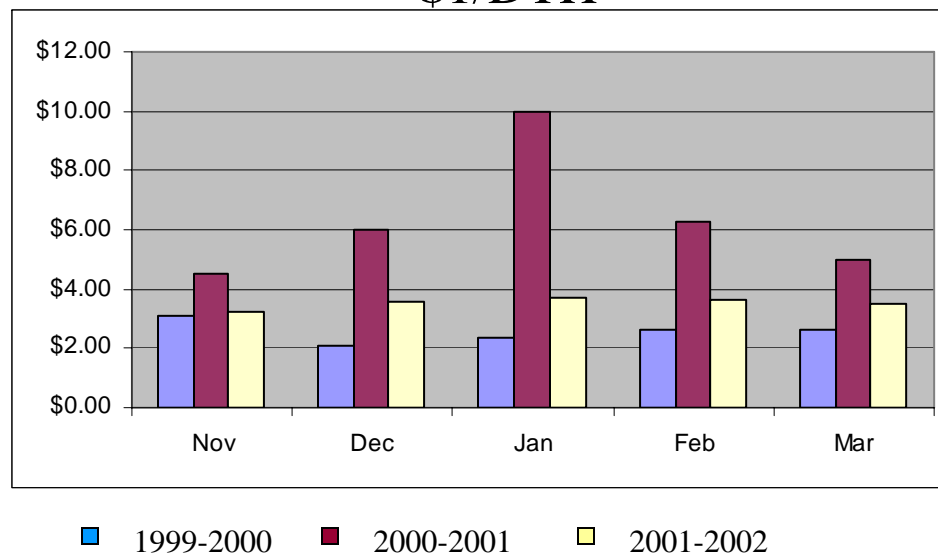
**Bottom Line: Supply and demand factors are at work**



## Selected NYMEX Futures

	Closing Prices <u>1999-2000</u>	Closing Prices <u>2000-2001</u>	Futures 2001-2002 (as of 7/21/01)
NOV	\$ 3.09	\$ 4.54	\$ 3.23
DEC	2.12	6.02	3.60
<b>JAN</b>	<b>2.34</b>	<b>9.99</b>	<b>3.71</b>
FEB	2.61	6.29	3.65
MAR	2.60	5.00	3.53

## NYMEX Closing Prices Nov. 1999- Mar 2002 \$1/DTH



## Cautionary Comments Regarding Prices

- NYMEX may not accurately reflect future cash prices
- Prices paid by customers may not reflect “market prices” due to :
  - LDCs prices reflect blend of storage withdrawals, daily spot purchases and monthly NYMEX based contracts
  - LDCs may use “fixed price” programs to hedge gas costs in order to mitigate price volatility for customers
  - GCA process requires “forecasting” of gas costs several months ahead of actual market price paid

# Lessons Learned Regarding Gas Procurement

- “Lowest reasonable cost” standard must be balanced with desire to address volatility
- Striking the right balance of lowest cost and mitigating volatility requires judgement -- no definitive right answer.
- Storage provides inherent price volatility mitigation

## Lessons Learned Regarding Gas Procurement - cont.

- Regardless of historical price direction , or “sentiments” of advisors, some level of hedging is desirable to mitigate price volatility - prices can quickly move in unforeseen ways
- Regulatory agencies recognize that volatility mitigation and lowest prices are not the same thing
  - Hedging can result in higher prices than procurement at spot prices
  - No one can predict the future
- Customer education is a very difficult task

## 2001 Senior Management Focus

- Engage additional external expertise - CERA and PIRA
- Refine gas procurement strategy
- Customers are key to Vectren's long-term success
- “Managing” gas costs is the right thing to do for all concerned

## Procurement Plan - Key Elements

- Portfolio approach (some “fixed” some “spot”) is paramount to mitigation of volatility
- Must balance a desire for a very disciplined hedging approach with the use of expertise and judgement
- Fixing the majority of “fixable” supplies should be accomplished on an ascending level as the period of delivery nears
  - Not advantageous to “lock in “ a large percent long before delivery
- “Fixing “ should occur through a large number of smaller contracts - average the price paid
- Financial instruments may be used to hedge the price of “swing” gas - does require a premium to be paid which could be useless at the time of purchase (like insurance)

# 2001-2002 Purchasing Plan

<u>Quarter Examples</u>	<u>% of Targeted Volumes Fixed</u>	
Current	75 - 100%	April - June 2001
1st Succeeding	40 - 75%	July - Sept 2001
2nd Succeeding	20 - 60%	Oct - Dec 2001
3rd Succeeding	10 - 30%	Jan - March 2002
4th Succeeding	Up to 15%	April - June 2002

# Vectren Energy Delivery North

## Fixed Price Analysis

Actual As Of 6-25-01 (dth's in 000's)

	<u>Projected Volumes</u>			<u>Fixed as Percent of Fixable</u>		
Quarter Ended	Fixable	Non-Fixable (Swing)	Quantity Fixed	6-30-01 Actual	6-30-01 Target	6-30-01 Fixed as % of Total
09/01	11,054	4,350	10,270	92.9%	75-100%	66.7%
12/01	7,499	14,896	4,486	59.8%	40-75%	20.0%
03/02	7,201	16,221	2,490	34.6%	20-60%	10.6%



## Vectren Energy Delivery North

Sources of Gas Sold to Customers- proforma 1st Qtr. 2002\*

	<u>Dth</u>	<u>%</u>
Fixed Purchases(100% of fixable)	7,200,705	19%
Withdrawals from Storage	<u>14,104,807</u>	<u>38%</u>
Sub-total	21,305,512	57%
Swing Purchases	<u>16,220,555</u>	<u>43%</u>
<u>Total</u>	<u><u>37,526,067</u></u>	<u><u>100%</u></u>

\*Assuming **100%** of fixable gas is fixed by 12-31-01

## Estimated 2002 Gas Bill Comparisons

	Typical Usage Level	2001 Bill	Projected 2002 Bill (5-21-01)
North			
Jan	22.4	\$188	\$174
Feb	20.3	\$170	\$160
Mar	16.6	\$151	\$134
South			
Jan	18.4	\$125	\$144
Feb	20.0	\$154	\$156
Mar	14.1	\$112	\$114

## Rough Estimate of 2002 Gas Bills

	Typical Usage Level	2001 Bill	Projected 2002 Bill (5-21-01)	Projected 2002 Bill (7-21-01)
North				
Jan	22.4	\$188	\$174	\$150
Feb	20.3	\$170	\$160	\$118
Mar	16.6	\$151	\$134	\$118
South				
Jan	18.4	\$125	\$144	\$125
Feb	20.0	\$154	\$156	\$136
Mar	14.1	\$112	\$113	\$100

# Ongoing Response to Market Conditions

- Continue Natural Gas Forums
- Continue customer education through media and direct messages
- Consider authorizing cost recovery related to the use of financial tools to mitigate price volatility of swing gas
- Modify GCA process to meet current situation
  - Avoid rate “pancaking” due to large under recoveries
  - Provide timely price signals to customers
    - Monthly updates of prices
  - Unaccounted for gas included as costs

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